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Introduction

Take two traders.

Give them the same starting capital, the same trading platform, the same market, and the same trading system with precise rules for entry and exit.

Come back a month later and what will you find?

One trader will be up 20%. The other will be down 40%.

It's fascinating, isn't it, how two people can have the same opportunities in life, and yet get very different results.

We at Day-Trading-Mind.com firmly believe that the answer to success lies within each of us; and that we are each completely responsible for our own results in the market.

The following top 10 list was compiled from the many discussions that take place at our regular monthly "trader's conferences" (i.e. a local bar. ;-))

Some of it you'll already know... some of it will be new.

Hopefully you'll find it useful.

1. Understand The Truth

Trading is a game of probabilities.

Imagine we're flipping a coin. Heads I win one dollar - tails you win one dollar. Simple. Heads and tails will each come up half the time, and we'll both neither win nor lose.

However, unknown to me, you have a loaded coin. For every 100 throws, heads comes up 49 times, and tails comes up 51 times.

You now have a license to print money. Let's call it the "Tails Trading System".

All you have to do is sit back and bet on tails forever. Eventually, you'd win all my money (and anyone else's who took you on).

All any trading system gives you is an "edge". A favorable bias. Something that is more likely to happen than not.

Whatever trading system you use...

e.g.

... pattern breakouts, trend-following, fibonacci, moving averages, channel following, oscillator signals, bollinger bands, swing trading, opening gaps...

... you are relying on a positive bias. Essentially, the trading system is saying "when 'x' happens... 'y' usually follows".

Sometimes it doesn't. Most of the time it does.

And all your trading system does is help you identify high probability trades, enter them correctly, and protect yourself while allowing your profits to grow.

Now some trading systems are better than others. But don't get caught up on the search for the *perfect system*...

You know, the trader's Nirvana... the elusive "Holy Grail"... the system that delivers profits on demand and never, ever gets it wrong.

Find a trading system that you like. One you feel comfortable with. One you understand.

Then stick with it. Be consistent.

A cool, disciplined, trader will take an average system and make money with it. A nervous, arbitrary

trader will take a brilliant system and wreck it.

All traders have "good" days and "bad" days. Some days you'll make small profits. Other days you'll make small losses. And once or twice a month, on average, you'll make big profits. That's how you make money as a traders. It's not 9 till 5.

Problem is, you never know when the big trades are due to arrive. Like our "Tails Trading System" above, the one time you don't take the trade is exactly the time the market takes off and never looks back.

You **MUST** see the big picture. Realize that the current trade is only one of many. On that basis, the current trade hardly matters. It's like a piece of plankton in a very large ocean.

Trading is all about managing risk and then surrendering yourself to the oldest law in the Universe:

The ancient law of probability.

2. Plan Your Trades, Then Trade Your Plan

Your job as a trader is to follow a trading plan.

And who's going to write this trading plan? You are.

Notice the word "write". It needs to be written down, on your trading desk, in front of you.

Your trading system will give you the rules to follow. All you do is translate these into your plan.

A trading plan must have three parts: Setup, Entry and Exit.

(Obviously it's beyond the scope of this document to provide details on specific trading systems as there are literally hundreds of them! However we do feature some occasionally in our newsletter.)

The point is that a trading plan covers every eventuality. You know what to look for in the market, when to get into a trade, and when to get out.

Keep it simple.

Then follow it. Religiously.

3. If You Don't Spend Much, You Can't Lose Much

One of the biggest mistakes you can make as a trader is have too much money riding on a trade.

The more money you use, the more emotional fuel you are pouring onto the fire. Eventually, you are likely to be burned... badly. And the post-traumatic stress may be irreparable.

Most beginning traders stake too much in the hope of a quick win. Experienced traders know better.

In day trading, where the trades can come thick and fast, a few big losers can eat you alive very quickly. Good day traders who survive will risk only a tiny amount of their trading capital on any one trade.

If you're "under capitalized" then consider using a trading system which offers a tight stop loss. Alternatively, trade a shorter time-frame, like the 1-minute chart, where losses can be minimized.

Overconfidence is the other cause of excessive risk.

"Hey... heads has come up 10 times in a row... let's put half the trading capital on tails (which is sure to come up next) and clean up."

The problem with sure-thing trades is that:

- a) The market hardly ever obliges;
- b) Everyone else sees them as sure-things as well and jumps aboard. So when they go wrong, they go wrong big-time.

Risk a tiny amount on each trade. You'll be more relaxed, and more able to execute the trade properly.

4. Don't Think Money - Think Points

Following on from minimizing your exposure, we come to your relationship with money.

Whether we like it or not, money is highly prized in our society. It's important. And we attach a lot of feeling to it.

How then will you feel when you see hundreds of dollars (perhaps thousands, depending on your account size) go up in smoke in front of you?

The problem is, "expenses" are part of the game. You have to lose some to win some more. There is no holy grail, like we said before.

If you can't change your relationship with money, then just don't think about it. Focus instead on numbers.

Think "percentage of trading account". Think "average risk-to-reward ratio". Think "potential profit points versus maximum points risked".

Concentrate on getting the numbers right and the money will take care of itself.

5. What The Mind Can Conceive...

Is it possible you secretly want to lose?

Self-destructive behavior can easily manifest itself in the markets, particularly among day traders. When the price is dancing around in front of your eyes, it can take a grip of you. You can start to feel like it's playing with you.

This is why you have to be very, very careful to avoid emotional trading. If you're a boiling cauldron waiting to explode, then you're heading for a seriously bad experience in the market.

Don't get emotional about trading. Remember the current trade is only one of a long series. You're in this for the long term. Remember that and don't, ever, get too attached to any one trade.

You must see yourself as a professional trader. At the start of each trading day, before the market opens, take a few minutes for yourself.

Close your eyes. Start visualizing the market. See the real-time chart on your computer screen. Watch as the price gyrates up and down.

See yourself entering a trade. Notice you feel relaxed. You're alert but calm. Completely non-emotional. Observe how the price moves after you enter. How it comes close to your stop loss.

Mentally place a number of trades. Follow them through. You get a losing trade. Notice you see the big picture. You are unemotional. Completely calm. You put on another trade. Again, another small loss. You are unperturbed. Next a winning trade. Again, you are relaxed. It's all part of the job.

This takes practice. And you must do it regularly to get the maximum benefit. Try it every morning, and any time you even begin feel stressed or you lose your focus.

The advantage of this technique is it's free. And the payoff is excellent.

6. Be Your Own Boss

You're the one in charge of your trading. You alone are responsible for your success or failure as a trader.

Not the market... not the trading system... not the government or the Federal Reserve.

You.

That's quite a responsibility. You handle it by being kind to yourself.

Become your own mentor. Watch how you're behaving during the trading session. Be especially careful to notice your feelings.

Focusing on your feelings gives you useful feedback about your performance. Remember that having a "winning day" or a "losing day" is not the issue here. All that's important is how you're performing in the job.

Are you being professional, remaining emotionally detached?

Or are you starting to get irritable at the market... the market makers... the unfairness of life...?

Negative emotions are early-warning signals that you need to cool down and relax. Get back into your state.

Observe the tension in your body and release it. Just let it go. Perform the visualization exercise again. Remind yourself that it's all percentages. This is just another trade, just another day.

If you make a mistake during your trading - and who doesn't - don't beat yourself over the head with it. Learn from it. Make a mental note to build on it. Thank the market for the training lesson ;-) and move on.

Be nice to yourself! It's very important that you avoid spiraling down into an emotional cycle where you end up doing some serious damage to your account and to your own ego.

7. Mind Your Language

Try this experiment sometime:

Tell a friend to close her eyes and stretch her arm out wide. Now get her to think of the word "weak", then press down on her hand. You'll notice her whole arm moves down easily.

Repeat the experiment as before, only this time, tell her to focus on the word "strong". This time you'll notice enormous resistance in her arm, and you might struggle to move it at all.

Two simple words - two very different results.

If words are so incredibly powerful, just think what you do to yourself when you call yourself an "idiot" or worse!

But words are more subtle than just name-calling. How about this one...

'Loss'.

Boy, think what that one conjures up. Missed opportunity? A gaping hole in your life? A theft? A bereavement, even?

No wonder traders find it hard to take losses. Let's call it something else:

'An expense'.

Ah, now it's sounding better. Much more business like. Helps to put it into its true perspective. Similarly, on the other side of the balance sheet, let's stop talking about:

'Win'

... which again is steeped in emotion... and change it to:

'Income'.

Income versus expenses. Isn't that what trading really is? A business.

You're much more likely to become profitable when you realize this. And forget about pitching your ego into imaginary battles that ensnare your sense of reason along the way.

Mind your language when trading. Use neutral words at all times, both about yourself and the market.

8. Less Is Definitely More

The best times to day trade are usually the first two hours after the open. Some traders also like to trade the last half-hour before the close.

Momentum is greatest at these times, with real buying and selling pressure creating the best trends.

Many real-time traders also follow the "3 strikes and you're out" rule.

By limiting your trading to only three trades a day - MAX - you reduce your stress level enormously. You'll be sharper and less likely to make mistakes.

You also insure yourself against a "suicide day", when you take serial losses, each time trying to recover from the previous loss...

Reading this away from the market, you might feel you would never fall into that trap.

However, it's surprising how many traders have come unstuck in a real-time avalanche as the losses begin to snowball.

The motto?

Tomorrow's another day.

Take it easy. Don't trade a 40-hour week. Accumulate your profits over time.

And you'll make more by doing less.

9. Get A Life

Do you know why you trade?

Is it the fun and excitement, the sheer nerve-jangling, adrenaline rush that comes from trading the world's financial markets?

Perhaps you enjoy status of being a trader? "Hi - John Doe - Futures Trader - nice to meet you..."

For some traders, it's an escape. They hate the world around them - their job, their boss, their spouse, their whole life in fact. Trading then becomes a fantasy to slip into at will.

The fact is, trading has to be about one thing.

Making a profit.

If you do it for any other reason, you are probably doomed to failure, because you'll operate from emotion instead of the cold, mechanical thinking that's the hallmark of a good trader.

Look at your own motivations for trading. See if you can discover a hidden agenda. If there's something missing in your life that trading is currently filling, then you need to address that.

Live a balanced life. Don't spend the whole day trading. Meet people. Get out! Start a new business. Find new interests.

Keep your trading desk free from emotional clutter.

10. The Essential Real-Time Trading Tool

Real-time traders live from moment to moment.

Such is the pull of a live data feed, it's often a challenge to see the big picture. But this you must do if you want to survive and prosper. .

Visualizing the current trade as one of a series helps to maintain your discipline and lower your emotional cholesterol.

But there's one trading tool that will really improve your performance more than anything else.

A trader's diary.

Don't be scared off by the sentimental connotations of keeping a diary. "Dear Diary... today I... " this is not.

Your own trading diary can be computer-based - via a word-processing document or a simple text file saved to your desktop. Or you may find a traditional pen and paper version more effective.

(There is something about writing on paper that makes it more personal. Probably the way the hand and eye coordinate with the brain. Plus you've probably got enough applications running when you're trading in real-time!)

Another option is to a personal tape recorder. Good if you prefer speaking to writing.

Whatever format you use... what will you actually write (or say)?

Anything.

Don't worry about grammar. Make one-word notes of what's happening. Sure, you can note down the facts and figures - stock code, time and date, position size, entry price, stop loss, exit price.

But also - and more importantly - record your thoughts.

If you were hesitant about getting in the trade, say so. If you're terrified now you're in (the dreaded "Trader's Remorse") then make a note of it.

When you exit, say why. Stopped out? Took profits? Why? How did you feel before the exit? How do you feel now, afterwards?

This only takes a few seconds to record this ongoing commentary of your own trading. But the information you get can be priceless. Here's why:

At the end of each week, preferably at the weekend when the markets are closed, review the week's entries.

You can guarantee that you'll see a pattern in your behavior. There is probably something you are doing consistently that's causing negative results.

And once you've identified the problem, the solution usually becomes obvious.

Do this exercise every week, and also every month to get a longer term perspective.

Only you can do this for yourself. Nobody looks after your own affairs better than you do.

You don't need the latest million dollar trading system to be successful in this business.

Look within. You may be amazed with the results.